

# KAZAKHSTAN SMALL BUSINESS PROGRAMME

Программа Малого Бизнеса Казахстана

**Implemented by:**

Developpement et Finance International (DFI), France  
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## Quarterly Report

**January – March 2003**

### **1. General information on the consultant's activities**

The main achievements and highlights for the first quarter of this year were as follows:

- We kept up very good momentum in lending and achieved excellent results almost every month. In March, we increased the outstanding portfolio by more than USD 4 million.
- During this quarter, the EBRD signed three contracts, with Halyk Bank, Kazkommertsbank and Turan Alem Bank. This officially opens the second phase of the KSBP and will provide future resources in an amount of USD 100 million.
- Over the period covered by this report we held six seminars (four micro loan seminars for new loan officers, one small loan seminar for experienced loan officers and one seminar for local consultants) in Astana and Almaty. As usual, a range of seminars was held in the regions. In all, more than 200 loan officers (LOs) received training in various areas.
- We started the programme in Kokshetau and integrated Kyzyl-Orda fully into the programme.
- We further supported the development of the micro lending programme in Kyrgyzstan by training eight loan officers.
- Business plans designed and agreed with the Partner Banks projecting 5,500 loans disbursed per month by end 2003.

#### **1.1 Results of lending activities/planning for 2003**

The KSBP's results for the start of the year were as expected. During the period January-March 2003, we disbursed 5,818 loans, only 353 less than in the previous period. This was because of reduced lending activity in January due to seasonal fluctuations. In volume terms, USD 30.49

million was disbursed, only USD 0.05 million less than in the previous period. This volume could be achieved due to a very high output in March (USD 12.8 million).

Small lending grew slightly faster than micro lending. In March in particular, we were able to increase numbers significantly. Micro lending contributed a very substantial share to the good results. Over the period, we increased the outstanding micro portfolio by 1,145 loans. In comparing these figures with results from previous quarters, it needs to be taken into account Micro loans now include all loans up to USD 10,000 [previously up to USD 30,000] and small loans all loans above USD 10,000 and up to USD 200,000.

In the first quarter, lending in the regions developed as follows:

Very good results were achieved in the cities of

- Taraz, where numbers and volume increased by 21% and 20% respectively;
- Pavlodar, where the number and volume of loans outstanding increased by 11% and 25% respectively;
- Aktubinsk, with an increase of 10% in numbers and 14% in volume;
- Almaty, where there was a sizeable increase in the number (15%) and volume (10%) of loans outstanding;
- Kostanai, where volume and numbers increased by 23% and 20% respectively.

Some cities could not live up to expectations. Astana, which added only one per cent in terms of numbers over three months, is developing too slowly given its potential. This city still has enormous scope for achieving better results. Among the other cities not entirely fulfilling expectations is Petropavlovsk. Aktau is still suffering from the negative developments in two branches, but the quick launch of two new branches should reverse the trend very soon.

As concerns planning for 2003, the goal of significant increases in the number of loan officers and expected results has been set and has been discussed with all partner banks. The plans include strategically important steps to maximise the outreach of the programme and the impact on institution building in terms of structures and personnel in our fifth year of operations. Currently, almost all of the partner banks have approved these plans. The main features of the plans are:

- An increase in the number of lending outlets from 118 to 200 by the end of the year.
- An increase in the number of loan officers from 283 to 715 by the end of the year.
- An increase in output per month: in December 2003 we expect disbursements of 5,500 loans and USD 25 million.

One main priority in developing the KSBP further in 2003 will be the full implementation of express lending. The bulk of new lending outlets will be opened at markets or at other locations suited to express lending. Asain Baikhanov has been appointed as the consultant responsible for

developing this area further. The tasks allocated to him are the streamlining of procedures, the training of consultants and loan officers and on-site support.

A second important task for this year is to establish and consolidate structures in banks and branches that allow us to hand over more responsibility to the banks. This includes the continued development of effective co-ordination in all banks, the appointment of a head of the lending department and a back office person in each lending department and the adoption of an appropriate version of our incentive system in each bank.

**Table 1: Development of outstanding volume over the period end-December 2002 to end-March 2003**

(all data in USD '000)	Outstanding Volume Micro Loans			Outstanding Volume Small Loans			Outstanding Volume Micro & Small Loans		
	December/28/02	March/31/03	Growth - (%)	December/28/02	March/31/03	Growth - (%)	December/28/02	March/31/03	Growth - 3-month period (%)
Region									
Almaty Region (started 05/98)	9,332	6,167	-34%	10855	16118	48%	20,187	22,285	10%
Astana Region (started 06/98)	2,624	1,514	-42%	2756	4146	50%	5,380	5,660	5%
Karaganda Region (started 06/98)	3,457	2,518	-27%	2375	3732	57%	5,832	6,250	7%
Shymkent Region (started 08/98)	3,341	2,142	-36%	1828	3428	88%	5,169	5,570	8%
Aktobe Region (started 11/98)	3,148	2,483	-21%	1559	2897	86%	4,707	5,380	14%
Atyrau Region (started 03/99)	2,619	1,795	-31%	1203	2362	96%	3,822	4,157	9%
Ust-Kamenogorsk Region (started 06/99)	3,419	2,221	-35%	4317	6228	44%	7,735	8,449	9%
Taraz Region (started 11/99)	874	737	-16%	400	793	98%	1,275	1,530	20%
Pavlodar Region (started 01/00)	2,682	2,059	-23%	1783	3541	99%	4,465	5,600	25%
Uralsk Region (started 04/00)	2,921	2,013	-31%	1305	2346	80%	4,226	4,359	3%
Kyzyl-Orda (started 10/00)	560	388	-31%	26	251	871%	586	639	9%
Jezkazgan Region (started 01/01)	992	703	-29%	423	737	74%	1,416	1,440	2%
Kostanai Region (started 03/01)	1,641	1,310	-20%	738	1614	119%	2,379	2,924	23%
Aktau (started 05/01)	1,834	1,014	-45%	666	1160	74%	2,500	2,174	-13%
Semipalatinsk (started 05/01)	1,101	890	-19%	528	791	50%	1,630	1,680	3%
Petropavlovsk (started 06/01)	1,232	753	-39%	846	1487	76%	2,078	2,240	8%
Kokshetau Region (started 02/03)		38	100%		0			38	100%
<b>TOTAL KSBP</b>	<b>41,778</b>	<b>28,745</b>	<b>-31%</b>	<b>31,609</b>	<b>51630</b>	<b>63%</b>	<b>73,386</b>	<b>80,375</b>	<b>10%</b>

## 1.2. Portfolio quality

The already excellent portfolio quality improved further still in the first quarter. As of the end of January, 103 loans were in arrears, accounting for 0.54% of the number of loans outstanding and 0.85% of the capital outstanding.

**Table 1.2: Development of the number of outstanding loans over the period end-December 2002 to end-March 2003**

Region	Micro Loans			Small Loans			Micro & Small Loans		
	December/28/02	March/31/03	Growth - (%)	December/28/02	March/31/03	Growth - (%)	December/28/02	March/31/03	Growth – 3-month period (%)
Almaty Region (started 05/98)	2,503	2,541	2%	293	668	128%	2,796	3,209	15%
Astana Region (started 06/98)	961	871	-9%	107	209	95%	1,068	1,080	1%
Karaganda Region (started 06/98)	2,108	2,104	0%	60	177	195%	2,168	2,281	5%
Shymkent Region (started 08/98)	1,178	1,125	-4%	70	192	174%	1,248	1,317	6%
Aktobe Region (started 11/98)	1,174	1,203	2%	50	149	198%	1,224	1,352	10%
Atyrau Region (started 03/99)	779	775	-1%	29	114	293%	808	889	10%
Ust-Kamenogorsk Region (started 06/99)	1,447	1,407	-3%	151	296	96%	1,598	1,703	7%
Taraz Region (started 11/99)	445	503	13%	9	46	411%	454	549	21%
Pavlodar Region (started 01/00)	1,573	1,631	4%	57	173	204%	1,630	1,804	11%
Uralsk Region (started 04/00)	1,048	1,011	-4%	40	138	245%	1,088	1,149	6%
Kyzyl-Orda (started 10/00)	299	292	-2%	2	31	1450%	301	323	7%
Jezkazgan Region (started 01/01)	481	532	11%	16	63	294%	497	595	20%
Kostanai Region (started 03/01)	715	799	12%	36	100	178%	751	899	20%
Aktau (started 05/01)	489	420	-14%	14	71	407%	503	491	-2%
Semipalatinsk (started 05/01)	745	808	8%	14	56	300%	759	864	14%
Petropavlovsk (started 06/01)	488	461	-6%	30	93	210%	518	554	7%
Kokshetau Region (started 02/03)		38	100%		0			38	100%
<b>TOTAL KSBP</b>	<b>16,433</b>	<b>16,521</b>	<b>1%</b>	<b>978</b>	<b>2,576</b>	<b>163%</b>	<b>17,411</b>	<b>19,097</b>	<b>10%</b>

### 1.3. Training activities

During the first quarter of 2003 we organised four micro loan seminars and one small loan seminar in Almaty. In all, 117 loan officers took part in these seminars, including eight loan officers from Kyrgyzstan. The results achieved in the exams were up to the usual standard.

In light of the envisaged increase in the number of loan officers, we modified our training programme. To be able to train new loan officers more frequently, we will hold micro seminars in Astana. There, one consultant is responsible solely for training new loan officers. This will enable us to conduct up to 20 micro seminars through the end of the year. Small-loan seminars, seminars for heads of lending departments, seminars for experts working with express loans and seminars for back office personnel will be held in Almaty. Natasha Solovyova, responsible for organising training in the past, has been named head of the training department in the KSBP. She will co-ordinate and supervise all training activities.

In the regions, training sessions on specific topics were held. The following seminars took place, with additional training thus provided to more than 90 loan officers:

- Almaty: 1 seminar on financial analysis
- Aktau 1 seminar on financial analysis and documentation
- Astana: 1 training session on typical mistakes in preparing a balance sheet
- Aktubinsk: 1 seminar on the basics of financial analysis
- Semipalatinsk 1 seminar on the first interview with the client
- Shymkent 1 seminar on the profit and loss account and balance sheet
- Petropavlovsk: 1 seminar on credit policy
- Ust-Kamenogorsk 1 seminar on financial analysis
- Jezkazgan: 1 seminar on express lending, and 1 seminar on financial analysis

In March, we held an intensive three-day seminar for international and local consultants in Almaty. Each consultant presented the development of express lending in his or her city or region. We furthermore discussed questions related to the planning for 2003. The discussions proved to be fruitful and helped to strengthen the participants' understanding of the necessary tasks in a maturing programme.

## **2. Development of the collaboration with the partner banks**

### **2.1 ATF Bank (ATF)**

ATF took a pragmatic and constructive approach to the ambitious plans for 2003. Plans to further integrate SME operations into the bank's structures were accepted without any particular difficulties. We will increase the number of branches and lending outlets participating in the programme from 12 to 22. Lending results are expected to more than double over the year, and the number of loan officers should rise from 39 to 84 by the end of 2003. It took more effort to convince the bank to increase the number of loan officers. So far, a final written approval of all plans has not been sent to the branches; however, we are confident that this is going to happen very soon. We discussed further points of mutual interest. One important problem is the early departure of loan officers from the programme, either to other departments within the bank, or to other banks. We suggested establishing a two-year compulsory commitment in the loan officers' contracts (this suggestion has been made to other banks too). In the event that a loan officer leaves prior to the end of this period, he/she must reimburse the cost of training to the bank. The ATF management understands very well how important our input is in developing their very young branch network and they remained very keen to further expand the programme, to intensify training of both new loan officers and those already working, and to improve results in many regions. If the plans for 2003 are to be achieved, a general improvement in micro output will be needed to break the deadlock of almost no development in loan disbursements (November 2002 – 232 loans disbursed, March 2003 – 230 loans disbursed). Express lending will be the key to a successful performance at ATF this year.

In December, we started operations in Aktau. In the Aktau branch, lending operations are carried out solely by our LOs. The start looked quite promising despite the fact that the question of a limit at branch level is still pending. One task ahead is to reduce average loan size significantly. Among the other branches, Taraz, Shymkent and Ust-Kamenogorsk in particular were able to improve results thanks to changes in personnel management and input in the form of increased marketing efforts. This is mainly due to the fact that express lending has finally been introduced properly. Astana branch showed deplorable results. There, development was hampered not only by changes in personnel, but also by a lack of support on the part of the branch management for the development of micro lending. Almaty branch should be able to improve its results after the new office building is operational.

The issue of new resources out of the second revolving tranche could so far be resolved. ATF will provide the necessary documents and will receive the requested funds. This also helped to alleviate the problem of loan maturity within the programme. ATF was at times refusing to finance small loans with a maturity of longer than two years because of, as they put it, a lack of long-term resources.

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## 2.2. CentreCredit Bank (BCC)

After some significant efforts to better integrate the programme into the bank's operations during the last few months, BCC did succeed in achieving further improvement in various areas. Lending results have improved, and the top management is making a serious effort to co-ordinate the programme better. In lending, BCC closed the gap between itself and ATF, having disbursed 220 loans in March (at ATF: 230 loans). During the last three months, under the leadership of Medet Rakhimbaev, Deputy Chairman of the Board, BCC adopted the plans for 2003 in a quick and constructive manner, achieved improvements in the channelling of information to the branches, and showed increased commitment both in the branches and in terms of co-ordination. BCC is the first bank to include our statistics on its website, monitoring progress on a monthly basis and even announcing a competition for the best branch in the KSBP. As for the plans for 2003, BCC intends to double the number of loan officers and almost triple its results by the end of this year. The management reacted quickly, too, after we had to again replace the head of the lending department in Almaty. An experienced loan officer from Jezkazgan was brought in to fill the gap quickly and to avoid a recurrence of the earlier poor performance.

We took advantage of the wave of improvements and the new dynamic to quickly launch the programme in three branches (Aktau in January, Uralsk and Pavlodar in March) and took the first steps toward expansion in Almaty. There, one lending outlet has been operating at the market since the end of March in order to implement express lending. Among the newly launched branches, Uralsk achieved the best start and disbursed one small loan of USD 112,000. Aktau, despite starting with experienced loan officers, did not manage to impress immediately; reservations on the part of the branch management and slow procedures hampered the development. To improve the knowledge of directors and local management about the programmes' aims and overall procedures, Heike Nonnenberg and Elvira Nigmatova will make a presentation at a directors' meeting early April. In February, Heike Nonnenberg took over the general supervision of BCC from Bertolt Hertzfeldt.

Lending results among the established branches have been mixed. Aktubinsk, Almaty and Jezkazgan showed strong results. The numbers of loans disbursed in Aktubinsk and Almaty (73 and 68 loans respectively) are among the best results for single branches in the KSBP. Aktubinsk deserves especial praise, since they succeeded in improving their results from an already high level. Shymkent branch showed good and stable results taking into account the fact that the head of the lending department announced his decision to leave the bank. Atyrau remains the problematic branch; here, a range of long-lasting problems remains unsolved. Despite many discussions with the local management on the part of Heike Nonnenberg and Gulnara Izbassarova, little has happened. Since the head office has limited influence on the director, we can currently only employ a policy of persistent work on every detail. It must be hoped that some of these measures will have some impact on improving the situation.



In the next quarter, much effort will be made to introduce express lending at all branches, train a considerable number of loan officers and prepare the launch of further branches, including Kyzyl-Orda and new outlets in Almaty.

Table 3: Summary of KSBP performance at CentreCredit Bank

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### 2.3 Kazkommertsbank (KKB)

In February, the EBRD signed a first direct non-sovereign guaranteed loan agreement with KKB for the KSBP II in the amount of USD 10 million. In short speeches, Bebit Absenbetov, Managing Director of KKB, Mike Davey and George Deikun, Country Director of USAID, called the development of SME finance at KKB an important building block for the development of SMEs in Kazakhstan in general. KKB's successful development of this sphere of business shows the viability of joint developmental and business goals, not just in Kazakhstan but also for the whole region.

KKB was very surprised when we presented the ambitious plans at a meeting in early February. However, KKB's management took a positive approach to the very demanding plans. As in other banks, we will double the number of loan officers, and the lending results will almost triple. Much of the discussion revolved around the question of the efficiency and profitability of loan officers. KKB has introduced a system of monitoring these parameters, but the system seems to compare things that are more than difficult to compare. A recurring argument is the higher productivity in the consumer lending department, where an individual loan officer supervises a bigger portfolio in terms of numbers and volume. In response, we again emphasised the specific nature of our target group and the need to deal with it, but we will probably have to come up with some new calculations in order to have a better chance of convincing the bank. Finally, the Board approved the plans. It must be said that in the end KKB put a great deal of activity and energy into constructively developing their own views on how to improve the programme further. Suggestions for additional lending outlets were made and local management was sent to our seminars. At a meeting for branch managers Bebit Absenbetov urged the managers to support the successful development of the programme and not to impede necessary changes. We had a constructive discussion on the broad introduction of express lending and presented an attachment to the lending guidelines encompassing all details in regard to this specific type of lending. Preliminary reactions from the risk and collateral departments gave us grounds to hope that the approval in early April will go smoothly. The fact that the adoption of express lending in the Taldykorgan branch was organised locally shows that the branches are indeed interested. The branch manager there signed a directive including all the details on how to speed up lending by delegating responsibility and easing collateral requirements.

So far, the improved relations have not translated into better lending results. Having disbursed only 340 loans in March, KKB still lags far behind the leading banks (Halyk disbursed almost 700). But the first small signs of progress can be observed. Among the best performers were Taldykorgan, Petropavlovsk, Pavlodar and Karaganda. The last two branches in particular used to be problematic, but seem to be making good progress. At the lower end of the scale, branches like Semipalatinsk, Atyrau, Shymkent and Ust-Kamenogorsk failed to convince. Diminishing portfolios show that these branches lost clients due to various factors. One factor, the failure to implement express lending, has already been mentioned. Others include lack of tenge-denominated resources, but also sluggishness in further developing procedures and marketing. Some branches need new personnel in order to inject fresh energy into the teams. Almaty branch should be exempted from this

criticism: There, five loan officers left the bank in the wake of the removal of the head of the department on the grounds of lack of professionalism. This made very fast personnel moves necessary. In good co-operation with the branch management and the head office (Magzhan Auezov), we were able to solve this severe crisis without many further losses.

The introduction of express lending, the improvement of structures in the departments and the intense training of new loan officers are the steps most needed to turn improved co-operation into results.

**Table 4: Summary of KSBP performance at Kazkommertsbank**

	Aktau	Aktobe Region	Almaty Region	Astana Region	Atyrau Region	Karaganda Region	Kostanai Region	Kyzyl-Orda	Pavlodar Region	Petropavlovsk	Semipalatinsk	Shymkent Region	Taldykorgan	Taras Region	Uralsk Region	Ust-Kamenogorsk Region	All Branches
Starting month	May-01	Nov-98	May-98	Jun-98	Mar-99	Jun-98	Mar-01	Oct-00	Jan-00	Jun-01	May-01	Aug-98	Oct-01	Sep-00	Aug-00	Jun-99	
<b>Output over the last 3 months</b>																	
Disbursed loans - December 28, 02	17	5	30	14	16	50	0	23	56	17	16	17	34	13	31	36	375
Disbursed loans - March 31, 03	11	15	15	18	14	43	0	24	37	14	10	18	56	13	21	31	340
Disbursed volume (USD `000) - December 28, 02	125	52	234	140	195	199	0	49	372	101	117	124	100	67	153	331	2,360
Disbursed volume (USD `000) - March 31, 03	56	116	98	198	186	177	0	122	502	92	48	173	91	108	157	431	2,554
<b>Development of outstanding portfolio</b>																	
Outstanding loans - December 28, 02	208	193	399	185	196	440	9	301	291	127	115	241	210	114	239	315	3,583
Outstanding loans - March 31, 03	218	175	359	183	183	475	6	312	336	143	112	222	271	109	253	313	3,670
Growth (%)	5%	-9%	-10%	-1%	-7%	8%	-33%	4%	15%	13%	-3%	-8%	29%	-4%	6%	-1%	2%
Outstanding volume (USD `000) - December 28, 02	992	853	2,808	1,712	925	1,466	42	586	1,219	628	415	1,256	392	423	1,076	2,079	16,870
Outstanding volume (USD `000) - March 31, 03	904	919	2,565	1,698	916	1,656	21	619	1,795	799	369	1,222	433	426	1,115	2,263	17,719
Growth (%)	-9%	8%	-9%	-1%	-1%	13%	-51%	6%	47%	27%	-11%	-3%	10%	1%	4%	9%	5%
<b>Portfolio quality</b>																	
Arrears rate (volume) - December 28, 02	0.00%	0.19%	4.26%	0.02%	0.00%	0.37%	0.00%	1.23%	0.00%	0.00%	1.08%	0.06%	0.15%	0.00%	2.10%	0.00%	1.06%
Arrears rate (volume) - March 31, 03	0.00%	0.60%	4.26%	0.01%	0.54%	0.95%	0.00%	1.12%	0.00%	0.00%	0.00%	0.00%	0.49%	0.00%	0.46%	0.00%	0.95%
<b>Loan officers (as of March 31, 03)</b>																	
No. of LOs under training (up to 6 months)	1	4	2	2	1	3		2	5		3	3			2		28
No. of trained LOs (> 6 months)	2	3	5	3	2	8		2	6	2	1	2	4	2	3	7	52
Total no. of Los	3	7	7	5	3	11	0	4	11	2	4	5	4	2	5	7	98
No. of LOs financed by partner bank																	

## **2.4 Halyk Savings Bank of Kazakhstan (HSBK)**

HSBK signed a USD 10 million contract with the EBRD in January under KSBP II. As the bank is an important partner in the programme, with an outstanding portfolio of 5,573 loans at a volume of close to USD 20 million, this contract should give a further boost to the already successful development of SME financing at HSBK.

After a period of lethargy in the co-ordination, Kairat Satylganov, Chairman of HSBK, appointed Marat Mukhambetov as the new deputy chairperson responsible for the KSBP within Halyk. The hoped-for improvement in connection with this change has so far failed to materialise. Despite some progress in expanding operations (Kyzyl-Orda and Kokshetau in February 2003), little substantial progress has been made. The basic explanation is that the co-ordination does not work because the person responsible for running the programme within the bank is not able to do so effectively. Her lack of understanding of the programmes' aims and needs, plus a lack of time due to her workload with other international programmes, mean that the necessary basis for successful co-ordination has not been established. We tried to improve the situation from our side by appointing a very experienced new co-ordinator for Halyk, Lena Sadikova, but it is impossible to bridge the gap quickly. We suggested early in the year that a second co-ordinator with experience in the programme be appointed from HSBK, but as yet this suggestion has not been taken. Other problems include delays in approving the new plans for 2003 (so far, we have not been able to discuss these plans in detail), delays in approving new lending guidelines and a new incentive system, and delays in hiring further back office personnel and in increasing the number of personnel in general.

Surprisingly, the lending results have not suffered so far. Halyk disbursed 694 loans in March, which is 150 loans more than the second-best BTA. This is mainly due to fine co-operation in the regions and the unrelenting efforts of dedicated teams. Ust-Kamenogorsk, Karaganda, Kokshetau, Almaty, Pavlodar, Taraz and Kostanai showed strong performances. Uralsk and Astana were less successful. In Uralsk, the branch manager openly criticised micro lending as unprofitable and a waste of time. After discussions at the head-office level, a slight change in his approach could be observed.

Solving the general problems of co-ordination and updating procedures and systems will open the door to a genuine improvement in output and make Halyk the undisputed leader among our partners. This will be a difficult process, however.



## **2.5 Temir Bank**

Things have changed very much for the better at Temir Bank. A lot of problems could be solved, bottlenecks eliminated and processes put on track. This rapid change is the result of lengthy discussion with Timur Issataev, who finally took the steps that were needed to develop the KSBP in all aspects. The changes took the form of approved lending guidelines, an approved incentive system, approved plans for 2003 and a constructive programme for expansion into new regions and cities. Astana, Aktubinsk, and Shymkent are to be launched soon. The positive mood and the right messages to branch managers have helped a great deal. Moreover, Inna Kasyanova, who formerly worked at BTA, joined Temir to work as co-ordinator for the programme. In all, we see very positive developments at Temir Bank.

So far, the lending results reflect these changes only to a certain extent. Almaty, Semipalatinsk, and Ust-Kamenogorsk achieved very good results. Ust-Kamenogorsk was able to nicely reduce the average loan size over the last three months. Uralsk branch was able to add significantly to numbers and volume, but was starting from quite a low level. Slow progress has been made in Kostanai, where the renewal of the team has not yet paid off in improved figures. Some problems remain in Semipalatinsk, where the branch manager is still pursuing his own policy. Repeated discussions at the head-office level should remove these obstacles soon.

Future plans include an increase in the number of loans disbursed to 175 in May, a quick increase in the number of loan officers and the establishment of all necessary structures both in the newly launched branches and in those branches already participating. Under the current circumstances these are very realistic goals.

Table 6: Summary of KSBP performance at Temir Bank

	Almaty Region	Kostanai Region	Semipalatinsk	Uralsk Region	Ust-Kamenogorsk Region	All Branches
Starting month	Sep-99	Sep-01	Nov-01	Jul-02	Dec-01	
<b>Output over the last 3 months</b>						
Disbursed loans - December 28, 02	20	16	35	11	22	104
Disbursed loans - March 31, 03	25	13	40	16	18	112
Disbursed volume (USD '000) - December 28, 02	162	93	63	82	226	625
Disbursed volume (USD '000) - March 31, 03	421	116	76	44	35	692
<b>Development of outstanding portfolio</b>						
Outstanding loans - December 28, 02	170	151	235	23	116	695
Outstanding loans - March 31, 03	210	158	278	65	146	857
<b>Growth (%)</b>	<b>24%</b>	<b>5%</b>	<b>18%</b>	<b>183%</b>	<b>26%</b>	<b>23%</b>
Outstanding volume (USD '000) - December 28, 02	1,528	576	459	184	1,342	4,089
Outstanding volume (USD '000) - March 31, 03	1,937	693	484	270	1,334	4,718
<b>Growth (%)</b>	<b>27%</b>	<b>20%</b>	<b>6%</b>	<b>46%</b>	<b>-1%</b>	<b>15%</b>
<b>Portfolio quality</b>						
Arrears rate (volume) - December 28, 02	2.64%	0.00%	0.19%	0.00%	0.00%	1.01%
Arrears rate (volume) - March 31, 03	1.69%	0.16%	0.00%	0.00%	0.00%	0.72%
<b>Loan officers (as of March 31, 03)</b>						
No. of LOs under training (up to 6 months)	3	1	3	3		10
No. of trained LOs (> 6 months)	2	3	3	2	3	13
<b>Total no. of LOs</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>23</b>
No. of LOs financed by partner bank						



## **2.6 Tsesna Bank**

The expansion at Tsesna had a good effect on the overall development. Kostanai branch, which joined the programme in January, got off to a reasonably good start and disbursed 16 loans in an already almost saturated market. It cannot yet be called a breakthrough, but some first steps have been taken. The discussion on the plans for 2003 went well. Tsesna seemed keen on keeping up the momentum in the development of KSBP lending. However, the optimistic plans for a launch of the programme in the Almaty branch have come to a halt. It turned out that the initiative came mostly from the chairman, Mr. Fogel, and much less from the local management. The newly appointed branch manager Naylya Rakhmetova, who is also a deputy chairperson, seems to belong to a different group of influential people in the bank. She used to work for BTA and brought almost all new people from there. In discussions with her and with Mr. Fogel it became clear that Mr. Fogel has little influence on the Almaty branch. Ms. Rakhmetova tried to stipulate personnel and conditions that were unacceptable to us. Under these circumstances a programme launch in the Almaty branch looks highly unlikely. Unfortunately, at the end of March Mr. Fogel had a heart attack which will keep him off work for the foreseeable future. But, keeping up the good momentum in Tsesna, we will explore another option for expansion, Stepnogorsk. However, with only two branches remaining in which the programme has not yet been launched, Tsesna's options for making a very big step forward are limited.

Future plans call for the full implementation of express lending in Kostanai, the introduction of new lending guidelines and a new incentive system and the intense training of new personnel.

**Table 7: Summary of KSBP performance at Tsesna Bank**

	Astana Region	Kostanay Region	All Branches
Starting month	Jun-98	Jan-03	
<b><u>Output over the last 3 months</u></b>			
Disbursed loans - December 28, 02	11		11
Disbursed loans - March 31, 03	15	8	23
Disbursed volume (USD '000) - December 28, 02	216		216
Disbursed volume (USD '000) - March 31, 03	145	14	158
<b><u>Development of outstanding portfolio</u></b>			
Outstanding loans - December 28, 02	139		139
Outstanding loans - March 31, 03	148	16	164
<b>Growth (%)</b>	<b>6%</b>	<b>100%</b>	<b>18%</b>
Outstanding volume (USD '000) - December 28, 02	1,530		1,530
Outstanding volume (USD '000) - March 31, 03	1,781	27	1,808
<b>Growth (%)</b>	<b>16%</b>	<b>100%</b>	<b>18%</b>
<b><u>Portfolio quality</u></b>			
Arrears rate (volume) - December 28, 02	0.00%	0.00%	0.00%
Arrears rate (volume) - March 31, 03	0.00%	0.00%	0.00%
<b><u>Loan officers (as of March 31, 03)</u></b>			
<i>No. of LOs under training (up to 6 months)</i>	<i>1</i>	<i>4</i>	<i>5</i>
<i>No. of trained LOs (&gt; 6 months)</i>	<i>3</i>		<i>3</i>
<b>Total no. of Los</b>	<b>4</b>	<b>4</b>	<b>8</b>
<i>No. of LOs financed by partner bank</i>			

## 2.7 Turan Alem Bank (BTA)

During the last three months, BTA has not made as much progress as it has in the past. There has been a certain stagnation in terms of results and structural changes. The management puts pressure on the branches to optimise procedures and portfolios, which has led to misunderstandings about the needs and aims of the KSBP in BTA. In that respect, some branch managers do not see any need to develop new spheres of activity and clienteles for their branches, but rather prefer to concentrate on well-to-do clients with a good reputation in the local community. The management at head office does not set the record straight or try to differentiate their messages to the regions. Express lending has lost momentum in BTA and overall disbursement figures per month have been stagnating since July 2002. Improvements in structures and procedures are being made only very slowly, additionally hampered by the departure of one co-ordinator, Inna Kasyanova, for Temir Bank. This is already the second co-ordinator who has left BTA within a very short time. We discussed difficulties such as low salaries with the Deputy Chairman Arsen Saparov and Head of the SME Department Saule Issina. Their reaction was not particularly constructive and left the problem open and unsolved. It remains difficult to put things on track and to transfer information in the right form at the right time to the responsible person. Some steps in the right direction (co-ordination of parallel lending) have been agreed on but are not adhered to in the branches. When a comparison is made with the developments in BCC, it can be seen that BTA lacks the passion to achieve something in its fifth year of co-operation. One positive signal could be the approval of our demanding plans for 2003 with only minor changes.

As for lending, the picture is mixed. There is a range of good performers such as Semipalatinsk, Jezkazgan, Almaty, and Kostanai. Other branches are not improving, and the performance of some branches has even slumped. Almaty deserves some praise since, after a long period of problems and decline, the team has made a comeback. Despite some unresolved problems with the accounting department, figures are on the rise and plans for expansion on track.

At the end of February, BTA signed a USD 10 million contract with the EBRD under KSBP II. This event may also help the bank to once again find the momentum to develop the KSBP further. Some statements on basic policy will be made at a directors' meeting in early April. We hope that the right messages will be given. Erich Wegner, who took over as co-ordinator, will present our view of the needs for 2003 and beyond.

**Table 8: Summary of KSBP performance at Turan Alem Bank**

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